

Lakah Group

Excellent interims – Forecast raised

Year to	Net	EPS	PER	DPS	DIV	NAV	P/NAV	ROE
31 December	Profit	£	X		Yld		X	%
	(££ mns)				%			
1998	93.23	0.81	10.06	0.00	0.00	10.00	0.82	8.11
1999E	178.99	1.38	5.90	0.41	5.08	10.85	0.75	11.18
2000E	251.15	1.67	4.87	0.50	6.16	12.02	0.68	13.93
2001E	291.64	1.94	4.21	0.58	7.11	13.38	0.61	14.53

Lakah Group has just released excellent interim results. Lack of data makes a direct comparison with the first six months of last year difficult. However at the interim stage, sales and net profit for the first six months of 1999 are already ahead of the sales and net profit for the whole of 1998. Strong growth in sales of medical equipment and large turnkey projects along with improvements in margins has combined to drive performance ahead of our expectations. We have upgraded our EPS forecasts by 7% from E£1.29 to E£1.38. Given the current strong growth in the medical business we would not be surprised if our current forecasts prove to be conservative. We strongly reiterate our buy recommendation.

■ Economics of scale from Lakah's size and dominance of its markets are now beginning to come through in higher profitability. EBITDA margins have increased by a full percentage point from 26.4% to 27.4% as higher volumes of both equipment sales and construction turnkey projects are spread over the cost base. Efficiency in the use of borrowing instruments also allowed the company to reduce its cost of funding despite an increasing interest rate environment.

■ Strong sales growth is expected in the foreseeable future as there is a substantial pipeline of large turnkey projects. There are signed orders of E£650 million (US\$190 million) for turnkey projects and the company is currently bidding for tenders worth about E£1 billion (US\$300 million). Given Lakah's market share of over 70% it should win a major proportion of these tenders.

■ Lakah is about to complete the acquisition of the largest manufacturer of disposable medical equipment in Egypt. This will substantially increase the proportion of sales derived from the medical sector with a consequent positive impact on the company's relative valuation.

■ The industrial division is now ramping up to full production with capacity utilisation rate approaching 70% for both steel billet and bulb production. Although margins fell in this division, sales increases implied that profitability was sustained.

■ Compound annual EPS growth between 1998 and 2001 is expected to be c.34%. Despite higher earnings growth, Lakah is on a 1999 PER of 5.9x which is a discount of 27% to the Egyptian market with earnings growth of only 12.5% and a 1999 PER of 7.5x. Lakah deserves a buy recommendation.

EGYPTIAN EQUITIES

BUY

(previous: Buy)

Price

GDR USD 7.18

Local E£ 9.86

Date

15 September 1999

Sector

Conglomerate

Contact

Ayo Salami

+44 171 521 1250

Suha Najjar

+44 171 521 3228

Reuters Ref

LKHDQ.L / HCFL.CA

Forecast growth in net income



	1998	1999E	2000E	2001E
Sales (££ mns)	674.4	1129.0	1402.7	1690.8
EBITDA (££ mns)	178.0	321.3	403.1	483.1
EBITDA margin	26.4%	28.5%	28.7%	28.6%
Net cash (Debt)	(665.1)	(554.3)	(464.9)	(348.6)
Mkt Cap. (US\$)		359		
Exchange rate		££3.41:US\$		

££ 000's	6 months to June 1999	12 months to Dec 1998	% change relative to 1998 full year	% change relative to 1998 half year on a proportional basis
Sales	744133	674363	10.3%	120.7%
Cost of sales	-489494	-450768		
Gross profit	254639	223595	13.9%	127.8%
<i>Gross profit margin</i>	<i>34.2%</i>	<i>33.2%</i>		
General and administrative expenses	-44220	-40240		
Foreign exchange loss	-147	-353		
Provision for doubtful debts	-6442	-4998		
Operating expenses excluding depreciation	-50809	-45591		
EBITDA	203830	178004	14.5%	129.0%
<i>EBITDA margin</i>	<i>27.4%</i>	<i>26.4%</i>		
Depreciation	-12712	-1496		
PBIT	191118	176508	8.3%	116.6%
<i>PBIT margin</i>	<i>25.68%</i>	<i>26.17%</i>		
Financing costs	-37288	-57930		
Profit before tax	153830	118578	29.7%	159.5%
Taxation	-36308	-20980		
<i>Tax rate</i>	<i>23.6%</i>	<i>17.7%</i>		
Profit after tax	117522	97598	20.4%	140.8%
<i>Net profit margin</i>	<i>15.79%</i>	<i>14.47%</i>		
Minority interest	-3333	-4368		
Attributable profit	114189	93230		
Weighted average number of shares ('000's)	149988	114988		
EPS	0.76	0.81	-6.2%	87.7%
Interest cover	5.1	3.0		

*H1 99 ahead of full
year 1998 results*

At the 6 months stage in 1999, performance in terms of both sales and profits is already of the full year for 1998. The growth in sales was driven by completion of large turnkey construction projects, equipment medical sales and increase in billet production. The divisional composition of sales has started to shift in favour of the medical division with the division contributing 64% of sales (1998: 61%). With the expected move into disposable medical equipment the proportion of medical sales is set to rise sharply. However the composition of profit has shifted in favour of the medical division with this division now contributing 54% of net profit (1998: 48%).

*Gross margins in
medical division up
from 27% to 30%*

The increased profitability of the medical division was driven by an improvement in margins with the division achieving an increase in gross profit margins from 27% to 30%. Margins improvements resulted largely from economies of scale as the increase in sales volumes outstripped the growth in overheads and reduction in the use of outside subcontractors. Profit margins fell in the industrial division as raw material prices rose back to pre 1998 levels. However overall EBITDA margins rose by one percentage point. With the sales of the medical division set to outpace the industrial division by the end of the year, it is likely that further improvements in margins could be experienced before the end of the year.

The increase in the depreciation charge reflects the billet and bulb factories that have now commenced production. The conversion of short-term bank debt into long term fixed rate bonds has helped reduce financing costs. The effective tax rate increased substantially from 18% to 24% because the benefits of the 10% exemption on listed paid-in capital has declined as the company's taxable profits have increased. Going forward there are likely to be further increases in the effective tax rate and we have incorporated this in our forecasts.

Overall the first quarter performance is impressive and this has prompted an upward revision of our profit forecasts from E£167.3 million to E£179.0 million. The company's trading cycle traditionally tends to favour the first half, hence it would not be appropriate to extrapolate the spectacular growth performance in the first half of 1999 into the second half of the year. Additionally Ramadan falls into the last month of this year and this would be a period of subdued economic activity. With EPS of E£0.76, the company is already 55% of the way towards meeting our forecast of E£1.38.

Profit and Loss Account 1998 – 2001

E£000'	1998	1999e	2000f	2001f
Sales	674,363	1,129,032	1,402,748	1,690,810
% change		67.4%	24.2%	20.5%
Cost of sales	450,769	733,861	905,084	1,092,336
Gross profit	223,594	395,172	497,665	598,474
Gross profit margin	33.2%	35.0%	35.5%	35.4%
Depreciation	1,496	20,059	19,928	21,344
General & Admin expenses	40,240	62,229	75,016	91,181
Operating profit	181,859	312,883	402,720	485,950
Operating profit margin	27.0%	27.7%	28.7%	28.7%
Net interest expense (income)	57,930	51,423	23,703	30,187
Provisions	4,998	11,642	19,522	24,184
Others	353			
Profit before tax	118,579	249,818	359,495	431,579
Minority interest	4,368	8,729	9,262	11,486
Tax provisions	20,980	62,096	99,088	128,445
Tax rate	17.7%	24.9%	27.6%	29.8%
Net profit	93,230	178,993	251,145	291,648
Dividends	0	53,698	75,343	87,494
Retained profit	93,230	125,295	175,801	204,154
Weighted Average Number of shares ('000's)	114,988	129,571	149,988	149,988
EPS (E£)	0.81	1.38	1.67	1.94
% change		70.4%	21.2%	16.1%
DPS	0.00	0.41	0.50	0.58
Dividend payout	0.0%	30.0%	30.0%	30.0%
Interest cover	3.0	5.9	16.2	15.3

Consolidated Cash Flow

E£000'	1998	1999e	2000f	2001f
Net profit	93,230	178,993	251,145	291,648
Depreciation	1,496	20,059	19,928	21,344
Provisions and other adjustments	30,346	11,642	19,522	24,184
Operating income	125,072	210,695	290,596	337,176
Change in inventory	(194,697)	(99,186)	(17,453)	(57,602)
Change in WiP	(109,354)	(75,947)	(53,972)	(66,701)
Debtors, ST balances	(511,390)	(65,724)	(161,326)	59,033
Creditors, ST balances	178,828	(82,554)	18,008	20,888
Accounts payable	18,855	(2,867)	4,055	3,368
Change in WC	(617,758)	(326,278)	(210,689)	(41,015)
Cash flow from operating activities	(492,686)	(115,584)	79,907	296,161
Capex	(395,749)	(30,163)	(74,851)	(54,045)
Change in fixed assets	(807,079)	(26,338)	159,679	(38,262)
Total cash flow from investment activities	(1,203)	(56,501)	84,829	(92,306)
Change in share capital	1,149,880	350,000	0	0
Change in ST debt	49,908	(106,596)	73,453	106,352
Change in LT debt	474,918	879,215	18,529	38,446
Dividends		(53,698)	(75,343)	(87,494)
Total cash flow from financing activities	1,675	1,068,921	16,639	57,304
Other cash items	38,974	0	0	0
Change in cash during the year	18,166	896,837	181,374	261,159
Net cash at beginning of year	-	18,166	915,002	1,096,376
Cash at year end	18,166	915,002	1,096,376	1,357,535

Consolidated Balance Sheet				
££000'	1998	1999	2000	2001
Fixed assets				
Costs	420,991	451,155	526,005	580,050
Accumulated depreciation	26,388	46,447	66,375	87,719
Net fixed assets	394,603	404,708	459,630	492,331
Deferred expenses	38,361	38,077	38,082	38,086
Projects under construction	164,982	164,982	164,982	164,982
LT investment	262,135	258,131	74,283	74,283
LT lease receivable	167,640	198,266	222,430	260,688
Goodwill	248,020	248,020	248,020	248,020
Total LT assets	1,275,742	1,312,184	1,207,427	1,278,390
Inventory	194,697	293,883	311,336	368,938
Work in progress	109,354	185,301	239,273	305,974
Debtors, ST balances	506,392	572,116	733,442	674,409
Cash on hand and at banks	18,166	915,002	1,096,376	1,357,535
Total current assets	828,609	1,966,302	2,380,428	2,706,857
Total assets	2,104,351	3,278,486	3,587,855	3,985,246
Due to banks	171,859	101,712	175,165	281,517
Current portion of LT debt	36,449			
Creditors-ST balances	178,828	96,274	114,282	135,170
Accounts payable	12,934	10,066	14,121	17,488
Total current liabilities	400,065	208,052	303,568	434,176
Long term debt	224,918	717,592	736,121	774,568
Bonds	250,000	650,000	650,000	650,000
Long term creditors	13,459			
Provisions	22,683	34,325	53,847	78,031
Minority interest	43,342	43,342	43,342	43,342
Shareholders' funds				
Paid up capital	1,149,880	1,499,880	1,499,880	1,499,880
Legal reserves		125,295	301,097	505,250
Retained earnings				
Net profit for the year				
Total shareholders' funds	1,149,880	1,625,175	1,800,977	2,005,130
Total liabilities	2,104,351	3,278,486	3,587,855	3,985,246

Nomura International plc 1 St Martin's le Grand London EC1A 4NP

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